

<b>Report to:</b>	<b>EXECUTIVE CABINET</b>
<b>Date:</b>	10 February 2021
<b>Executive Member:</b>	Councillor Oliver Ryan – Executive Member (Finance and Economic Growth)
<b>Reporting Officer:</b>	Paul Smith – Assistant Director Strategic Property Tom Wilkinson – Assistant Director Finance
<b>Subject:</b>	<b>INVEST TO SAVE - TAMESIDE ONE INSURANCE PROPOSITION</b>
<b>Report Summary:</b>	To outline an invest to save proposal in relation to the installation of fire detection equipment into the ceiling voids at the Tameside One building, that has arisen due to changes in the fire insurance market following the Grenfell fire and other similar incidents. In doing so providing information in regards to the cost of installing the equipment, and outline options in regard the way in which the Council could resolve the situation and the required contractual arrangements necessary to fulfil these options.
<b>Recommendations:</b>	<ul style="list-style-type: none"> <li>(i) That members approve the installation of equipment and associated contract and project management costs of £1,249,363 via the Council's insurance fund reserve balance.</li> <li>(ii) That the works are added to the Council's capital programme to the value of £1.25m to be funded from the Insurance Reserve, and managed and monitored by the Council's capital team with progress reports made to the Strategic Planning and Capital Monitoring Panel.</li> <li>(iii) That the Council makes annual provision for the replenishment of the insurance risk reserve from its existing risk management and insurance budgets over the remaining life of the property at a cost of £45k per annum.</li> <li>(iv) That the Council ensures that the service charges to third party occupiers reflects the full costs of insuring the leased areas of the premises.</li> </ul>
<b>Corporate Plan:</b>	Modern infrastructure and a sustainable environment that works for all generations and future generations.
<b>Policy Implications:</b>	Financial: Risk and Insurance; Health and Safety
<b>Financial Implications:</b> <b>(Authorised by the statutory Section 151 Officer &amp; Chief Finance Officer)</b>	<p>This report provides the supporting details of the insurance requirement to install fire detection equipment into the ceiling voids of the Tameside One building that also includes the College.</p> <p>Section 3 of the report explains the insurance implications for the Council if it were to not install the equipment. The Council's current property insurers have confirmed that they will impose a 25% co-insurance clause (or £0.250m whichever is the greater amount) if there is a failure to comply with the installation recommendation. A co-insurance clause effectively makes the Council responsible for that specified proportion of each and every fire claim that may arise at Tameside One. As examples, there would be a self-insured amount of £1m in the event of a £4m fire claim, increasing to a maximum £11.875m for a total claim of £47.5m (the current insured</p>

value of the building). These cover restrictions are a significant increase in comparison to the £0.100m voluntary policy excess that currently applies.

Failure to comply with the Council's property insurer's recommendation to install the equipment is highly likely to bring additional annual insurance premiums. There is also the increased financial exposure presented by the co-insurance clause.

The approval to install the fire detection equipment will support the avoidance of these envisaged annual future increased property insurance premium costs together with any co-insurance clause values that would arise in the event of a fire claim. The single financial expenditure in relation to installation of the fire detection equipment will result in year on year cost avoidance by not having to pay increased yearly premiums and also increased single excess should an incident occur.

The estimated cost of the equipment installation including related fees is £1.249m. Members should note however that this estimated cost is only valid until 1 March 2021. The Council retains an Insurance Reserve to cover the costs of any self-insurance that it chooses to have and which is used to fund any voluntary excess on its policies if claimed. This reserve currently stands at £7.479m, which is significantly less than the potential full loss of £11.875m.

It is therefore proposed to finance the cost of the works from this insurance reserve so as to manage the risk in a sensible and proportionate way. The reserve is reviewed on an annual basis following an actuarial review of risks. The next actuarial review is likely to recommend an increase in the size of the reserve if the fire detection equipment is not installed. The reserve can only be increased by placing a charge to the Council's revenue budget which will increase the pressure on an already tight budget in 2021/22.

If members approve these works, it is proposed that the insurance reserve is replenished over the remaining life of the building, which for accounting purposes is 28 years, as part of the Council's self-insurance and risk mitigation strategies. This will result in a £45k per annum transfer from insurance budgets to the risk reserve. This can be met from within existing insurance budgets as part of the self-insurance provisions budget.

For insurance purposes Tameside One is seen as a single building and the insurers insist that the Council insure the whole premise, including the leased elements. The terms of the lease with the college and other third parties for the occupation of Tameside One, allow for the insurance costs relating to areas occupied by third parties under the terms of the lease to be recovered through the annual service charge.

**Legal Implications:  
(Authorised by the Borough  
Solicitor)**

The Council must ensure that it complies with legal requirements in respect of fire detection equipment together with additional recommendations and/or requirements recommended by the council's insurers subject to the necessary due diligence being undertaken. As set out in the report for insurance purposes Tameside One is treated as one building and it is understood that the insurers insist that the council is responsible for the insurance

of the whole of the building including the parts of the building that our leased out.

Assurance has been provided that the college who are more than half the building will meet the necessary costs to take the benefit of the premium reductions.

**Risk Management:**

As highlighted in the report

**Access to Information:**

The background papers relating to this report can be inspected by contacting Alison Lloyd-Walsh



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## **1. INTRODUCTION**

- 1.1 This report provides information in regard to an invest to save proposal in relation to a requirement to install fire detection equipment into the ceiling voids across the entirety of the Tameside One building in Ashton-under-Lyne, which if not undertaken will result in increased insurance premium and excess levels applying.
- 1.2 The report additionally provides information in regard to the scope of the works required and the contractual /project management processes that will need to be in place. The report provides information as to the cost of the project and requests authorisation to release funding for the required works.
- 1.3 It is important to note that the additional fire detection equipment discussed in this report is a requirement of the insurers to protect the asset. Absence of fire detection in voids is not against British fire safety standards, but viewed as serious risk management issue by insurance underwriters to protecting the asset rather than the people.
- 1.4 The one off investment in relation to the installation of the fire detection equipment will result in year on year cost avoidance by not having to pay increased yearly premiums and also increased single excess should an incident occur. The Council's response to the changing insurance market by acting decisively and promptly will also demonstrate its commitment to risk management and mitigation and reflect favourably in relation to broader premiums payable by the Council.
- 1.5 This is not required in relation to the protection of life.

## **2. BACKGROUND**

- 2.1 Tameside One is a flagship multipurpose building in the centre of Ashton. Construction and occupation was completed in March 2019 and accommodates a broad range services and organisations including library, Tameside College, Job Centre Plus re together with council administrative and civic offices.
- 2.2 During the construction, building control approval was obtained for the fire safety systems and fire strategy, which did not require the provision of ceiling void fire detection.
- 2.3 It is important to note that a lack of ceiling void fire protection does not mean that the building is unsafe for occupation. It is also important to note that industry standards for fire detection equipment have changed as contained in BS5839-6:2019. Whilst this specific change relates to domestic dwellings and was introduced after the Grenfell Tower tragedy the insurance industry in general has an increased focus in regards to ceiling void protection overall.
- 2.4 Ceiling void detection equipment is absent across the whole of the Tameside One building including the parts of the building occupied by Tameside College and the area occupied by Job Centre Plus. The area of the building occupied by Wilko is not affected by this issue as it is of a different structural design.

## **3.0 INSURANCE REQUIREMENTS AND CONTEXT**

- 3.1 Since construction and the subsequent occupation of the building, the council's insurers have identified an asset protection/ risk need to enhance the automated fire detection system through the installation of an automatic detection system within ceiling voids with a depth of 800mm and above. There are two main areas that influence the decision around whether to invest in this mitigation work.

- (a) Through the Councils experience during 2020 renewal negotiations and discussions with appointed insurance brokers, Gallaghers there is awareness that the insurance market is hardening. Public sector insurers have suffered an increased frequency of catastrophic losses in recent years and reduced income caused by the economic effect of Covid-19, causing increases to premium levels and a reduction in market appetite.
- (b) The councils property insurers, Travelers Insurance have confirmed that they will be forced to impose a 25% Co-insurance Clause (or £250,000 whichever is the greater amount) if fire detection is not fitted to the voids at Tameside One. A Co-insurance Clause effectively makes the Council responsible for that specified proportion of each and every fire claim to occur at Tameside One. Therefore there would be a self-insured amount of £1,000,000 in the event of a £4,000,000 Fire loss, increasing to a maximum £11,875,000 for a total loss of £47,500,000. These cover restrictions are a significant increase in comparison to the £100,000 voluntary Policy Excess currently applying. In the worst case scenario the complete loss of the building, which is currently insured for £47.5 million would result in a £11.8 million loss requirement to be paid by the Council.
- 3.2 As landlord the Council is responsible for the insurance of the entire building and for payment of the insurance premium. Tenants of the building pay a relevant portion of this premium back to the Council via lease and service charge arrangements.

#### **4. WORK UNDERTAKEN IN RESPONSE TO REQUIREMENTS**

- 4.1 A full building survey has been undertaken to ascertain, which ceiling voids exceed the stated insurance requirements. The survey results indicate that the majority of voids exceed this and that some voids particularly those above ground and first floor level are up to a depth of 2 meters. The survey also provided a plan of where fire detection equipment should be installed.
- 4.2 A scope of works has been produced which provides detail in regard to timelines and timeframes for the completion of the work. The work required to install equipment involves removal of ceilings and is estimated to take 65 weeks to complete depending on availability of vacated spaces across the buildings.
- 4.3 This work will obviously cause disruption to the operation of the Tameside One building affecting the Council, our tenants and the College. Should the scheme be authorised there will need to be a wide scope engagement process, which will need to start as quickly as possible with the actual installation work starting early in 2021.

#### **5. COSTS AND PROJECT DELIVERY OF INSTALLING EQUIPMENT**

- 5.1 As of September 2020 the quoted costs for the installation of the equipment is £1,089,363. This quote includes associated work such as the moving of furniture and contingency in respect of any specialist work that may be required in spaces of the College that provide a specialist function e.g. cold rooms. This quote is valid until 1 March 2021.
- 5.2 Funding for this purpose is available from the Council's insurance fund which has a current balance of £7.479 million.
- 5.3 Due to the nature of the building, the insurers require the Council to insure the whole premise. The lease, as drawn up allows the Council to recover any insurance costs it includes through the service charges to its tenants.
- 5.3 If approved the project would be procured as a design and build contract via the LEP. Given the value of the project a design and build contract would assist in mitigating the risk for the

Council and for the LEP and include the services of an independent certifier (IC) to inspect and provide financial probity and audit in regard to the spend and quality. The project contractors would provide the necessary warranties in regard to the installation and functioning of the equipment and its intended purpose in relation to the Tameside One building.

- 5.4 The proposal will need to be endorsed by Ryders as the primary architects of the building. There will be additional costs associated with the procurement of a design and build contract which would include insurance, legal fees, IC costs, LEP fees and project management costs. These are currently estimated to be £160,000.

## **6. OPTIONS**

- 6.1 Based on the information in section 3 in regard to insurance requirements and section 5 in regard to the costs of progressing the installation scheme a decision is required in regard to the preferred approach.

- 6.2 In summary the 2 options are:-

- (i) Inform insurers that equipment will not be installed and accept the increased year on year premium / insurance risk, including the co-insurance clause of up to 25% of the cost of the building.
- (ii) Install the equipment and the associated one time costs and approve the utilisation of the insurance fund reserve to finance the related costs of £1,249,363, negating the year on year insurance increased insurance charges and replenish the insurance fund reserve over the remaining life of the building from the saving made from the reduced premium levels and self insurance contributions.

- 6.3 In consideration of the potential financial risks it is recommended that option (ii) is taken forward and identified as an invest to save opportunity.

## **7.0 RECOMMENDATIONS**

- 7.1 As set out at the front of the report.